Airlines

Industry Overview

Companies Mentioned: AAI, ACAI*, ALK, AMR, AMTR*, AWA, CAL, CGO, DAL, FRNT*, LFL, LUV, MESA*, NWAC*, SKYW*, U, UAL



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Highlights

- We believe the airline industry will be affected by last week's developments like no other industry will be.
- ▶ The question is how far will airline stock prices fall this week, how long will the expected sharp drop off in traffic last, what actions can be taken by the carriers to quickly curtail costs, and which airlines have the liquidity to withstand a major downturn in business.
- ▶ We believe the whole industry could be threatened by insolvency if the government does not provide financial help.
- In the longer term, ironically, this could begin a consolidation for the industry, which is something that we believe regulators have been trying to avoid.

Reason for note: Industry Update

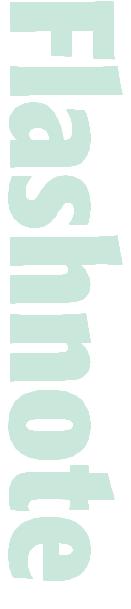
We believe the airline industry will be effected by last week's developments like no other industry will be. The question is how far will airline stock prices fall this week, how long will the expected sharp drop off in traffic last, what actions can be taken by the carriers to quickly curtail costs, and which airlines have the liquidity to withstand a major downturn in business. We believe the whole industry could be threatened by insolvency if the government does not provide financial help.

The industry is capital intensive and highly leveraged due to its heavy dependence on equipment financing needs. However, the national and world economies are highly dependent on a solid and reliable system being able to function. Therefore, we believe that it will be mandatory that the government provides some relief to get the industry through this extraordinary crisis period, such as taking over the expensive and stepped up airport security procedures and possibly even providing for some cash compensation to get the industry through an extraordinary environment. In the longer term, ironically, this could begin a consolidation for the industry, which is something that we believe regulators have been trying to avoid. (Please also see earlier flashnote of Sept. 17, 2001.)

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